

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

**LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call**

Event Date/Time: Jan. 07. 2008 / 4:30PM ET

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

## CORPORATE PARTICIPANTS

**Barbara Doyle**

*Lawson Software, Inc. - VP, IR*

**Harry Debes**

*Lawson Software, Inc. - President, CEO*

**Rob Schriesheim**

*Lawson Software, Inc. - EVP -CFO*

## CONFERENCE CALL PARTICIPANTS

**Thomas Ernst**

*Deutsche Bank - Analyst*

**Adam Holt**

*JPMorgan - Analyst*

**Alan Cooke**

*UBS - Analyst*

**Peter Goldmacher**

*Cowen and Company - Analyst*

**Ajay Kasargod**

*Piper Jaffray - Analyst*

**Mark Schappel**

*Hapoalim Securities - Analyst*

**Alan Weinfeld**

*Henley & Company - Analyst*

**Brad Smith**

*Dougherty & Company - Analyst*

## PRESENTATION

**Operator**

Good afternoon, and thank you for standing by. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session. (OPERATOR INSTRUCTIONS) Today's conference is being recorded. If you have any objections, you may disconnect at this time. I would like to introduce your host for today's conference call. We have Ms. Barbara Doyle, and, ma'am, you may begin.

---

**Barbara Doyle** - *Lawson Software, Inc. - VP, IR*

Thank you, and good afternoon to everyone on the call. Welcome to Lawson Software's fiscal 2008 second quarter conference call, covering the quarter ended November 30, 2007. On today's call Harry Debes, Lawson's President and CEO; and Rob Schriesheim, Lawson's CFO will discuss our Q2 results and future guidance. We will then open up your call to your questions as the operator described. Let me remind you that you can reference our press release and financial tables on our investor website at [www.Lawson.com/investor](http://www.Lawson.com/investor). Now please allow me to review our Safe Harbor statement.

This call will include forward-looking statements that contained risks and uncertainties. These forward-looking statements contain statements of intent, belief, or current expectations of Lawson software and its management. Such forward-looking statements are not guarantees of future results and involve risks and uncertainties that may cause actual results to differ

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

materially from the potential results discussed. The Company is not obligated to update forward-looking statements based on circumstances or events that occur in the future. Risks and uncertainties that may cause such differences include but aren't limited to uncertainties in the Company's ability to realize synergies and revenue opportunities from the Intenia acquisition, uncertainties in the software industry, uncertainties as to when and whether the conditions for recognition of deferred revenues will be satisfied, uncertainty regarding future deterioration in the market for auction rate securities which could result in additional permanent impairment charges, global military conflicts, terrorist attacks on the United States or any future events in response to those developments, changes in the condition of the Company's targeted industries, increased competition and other risk factors listed in the Company's recently filed 10-Q and 10-K filed with the SEC and available on our website. With that, let me turn the call over to Harry Debes.

**Harry Debes** - Lawson Software, Inc. - President, CEO

Thank you, Barbara, and good afternoon everyone. As usual I'll begin with an overview of the quarter, I'll discuss some sales metrics and highlight some client wins and then I'll turn the call over to Rob Schriesheim, our CFO who will cover our financial results and also guidance.

As you've seen from our earnings release during our second quarter, we continued to make very good progress, and here are some year-over-year highlights, and I'll remind you that these are non-GAAP numbers. Our second quarter total non-GAAP revenue was \$219 million, and that's an increase of 16%, all of which is organic. Licensed revenues grew 50% to \$33 million. Maintenance revenues increased 15% to \$85 million, and consulting services revenue increased 9% to \$101 million, and fully burdened services margins increased to 17% from 15.3. And we continue to believe that there's plenty of opportunity to improve on the margins in this consulting services area over time.

Non-GAAP operating margin was 10% compared to 7% last year, and non-GAAP earnings per share was \$0.09 in Q2 compared to \$0.03 a year ago. On the GAAP side, our earnings were \$0.02, and that's due to an extraordinary event connected to the financial markets which Rob will explain, and that compares to a loss of \$0.02 last year. Now, these improvements are the result of improved execution in a number of important areas. Our software solutions are more tailored to the vertical industries we serve. Sales productivity is improving. We have higher services utilization and greater use of our resources in Manila. We successfully launched a variety of new product and service offerings and we're now more disciplined in maintenance pricing and contract renewals. We're not claiming victory as we readily acknowledge that there are still many opportunities to improve; but given where we've come from and the amount of work that was on our plate, it was a quarter that for the first time in the history of our Lawson-Intenia combination, reflected the steady state, and we believe that we can continue to build from here. Now, let's review some of the sales metrics and key customer wins in Q2.

In the quarter, we signed 331 deals, compared to 307 deals in the previous year's quarter. Our trailing 12 months average selling price for all deals both new and existing clients is \$78,000. In Q2, we added 38 new-name customers with an average selling price of \$373,000, and this compares to an average selling price of \$314,000 for new deals over the last trailing 12 months. 40% of our licensed contracting came from new customers, and we expect new customer deals to account for 30 to 40% of the license dollars signed for the foreseeable future. With regard to large deals, we closed two deals greater than \$1 million compared to three a year ago and we signed eight deals between \$500,000 and \$1 million compared to 13 last year. As you can see, from our results, we're not overly dependent on large deals to have a good quarter.

Now let's discuss some of our performance in our target verticals. In health care, we signed some great new accounts, including the Nebraska Medical Center, Children's Hospital Centers of California, and Southeast Alaska Regional Health. All were wins over Oracle. In the Middle East, we signed American Hospitals Dubai, and this is our third healthcare win headquartered in EMEA. We plan to be more aggressive in growing our healthcare business in EMEA, and we'll report on progress on this initiative in a few quarters.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

In our public services vertical, we added the City of Columbus, Ohio, Scott County, Minnesota, and the City of Topeka, Kansas as new accounts, all were wins over Oracle. In our retail vertical we had new business win over Oracle at Marsh Supermarkets and upgrades at Outback Steakhouse and also at Sports Authority. Now, moving to our M3 solution, we signed Boissons Glacieres Internationales, the main Coca-Cola and Schweppes bottler and distributor in French speaking Africa. They selected Lawson M3 over SAP and Oracle for a full ERP implementation in Africa.

Hermes, the luxury fashion icon has been an M3 customer for many years, but we were only installed in one of their divisions. In Q2, after an extensive review that included devaluing, SAP and Oracle as alternatives Hermes decided to upgrade to our latest version and to standardize on M3 worldwide for all of their divisions. Also in fashion, Kumfs, a women's footwear designer and manufacturer based in New Zealand opted for Lawson M3. Kumfs needed an integrated financial, manufacturing, and logistics systems and they found that Lawson was best suited to deliver on the unique and complex requirements of footwear manufacturers.

Finally, and as you know, building M3 sales in the Americas is an important growth strategy of the company. I'm pleased to report that we signed the largest M3 Americas deal in our history during our second quarter. Oldcastle is the largest manufacturer of building products in North America, with 1,700 locations and 50,000 employees. They needed a financial and supply system that could grow and adapt with them and also work directly with their manufacturing operations. After an extensive review, they selected a 4,000 user Lawson M3 solution over Oracle and SAP. This deal was signed in September, and we are now in the implementation phase. So to summarize, I am pleased with both the top and bottom-line progress we are making as a business, and now I'll turn the call over to Rob for a more detailed view of our results.

---

**Rob Schriesheim** - Lawson Software, Inc. - EVP-CFO

Thanks, Harry. I will cover the Company's non-GAAP results for Q2 and provide our guidance. Then I'll turn the call back over to Harry for closing comments before we take your questions. Q2 revenue results and EPS exceed our guidance even after taking into account currency impacts. Compared to last year's rate, the weakened U.S. dollar had a beneficial impact of \$10.9 million on revenue. Recall that nearly half of that are revenue are from sales made outside the United States. Currency contributed roughly 6% of the 16% reported non-GAAP revenue growth. However, currency also had the negative effect of increasing total expenses by \$12.6 million. The greater negative impact from currency on expenses cost us \$0.01 on EPS for the quarter and slightly more than \$0.02 for the six-month year-to-date period.

Now I'll discuss some key drivers behind our financial results beginning with some additional insight into the Company's revenue performance. Total revenues of \$219 million increased 16% year-over-year. Revenues increased in all geographies. The Americas continued to drive slightly more than half of our revenues at 52% of total. Revenues in the America region increased 16% year-over-year. America sales productivity improved solidly over Q1, but with 40% of sales account executives on board for less than a year, productivity has been impacted. We look for Americas sales productivity to continue to improve in the second half of the year. The EMEA region represented 44% of total revenues and increased 21%. The remaining 4% of our revenues were generated in the Asia Pacific region and increased 21%.

As already mentioned, we had some uplift in international revenues due to currency fluctuations and we signed a large deal that was 100% recognized in the quarter. I'd also point to two beneficial items in the quarter that were driven by one time transactions. First was a \$1.5 million unplanned benefit regarding deferred license revenue. We've extensively discussed the trend where we expect the benefit to the P&L from deferred license revenue this year compared with the suppressive P&L impact in fiscal '07.

In Q2, we had approximately \$1.5 million more license revenue roll in than expected from the deferred account, which would be viewed more or less as a one time event. As we have discussed, deferred license roll-in is not equal or smooth every quarter, but is driven by specific contracts, terms, projects, and milestones. In maintenance, we recognized approximately \$1.5 million of revenue related to maintenance contracts that we would also consider a one time benefit in the quarter. Without question,

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

however, the growth was first and foremost attributable to business performance. We would have reported healthy growth rates in all line items of revenue regardless of these few items, and we would have still been solidly in or at the high end of our revenue and EPS guidance revenues.

Operating margin improved to 10.1% on a non-GAAP basis, up 310 basis points from a year ago. Total cost and expenses increased 12% year-over-year, lower than the 16% growth in revenue. The Company has begun to attain some efficiencies and scale from our expanded global structure which provides solid operating leverage as revenues increased. The majority of our profitability improvement was evident in the gross margin lines. Gross margin increased 300 basis points from 50% to 53%, reflecting the benefit of higher license revenues as well as the improved consulting services margin. Let me add some additional color on services margins.

Services gross margins have been on an improving trend over the last six quarters from low teens to mid teens, and this has positively impacted growth and operating margins. Consistent with Q1, demand for our consulting services continues to be greater than we expected. As you can see in the high consulting revenue and more than our current capacity as we transition more hours to Manila. We, therefore, continue to supplement our resources with subcontracted partner resources, which has negatively impacted our total expenses by \$4 million in Q2 and \$7.5 million year-to-date. Non-GAAP operating expenses were held constant as a percent of revenue on a year-over-year basis at 43%. Lower R&D expenses resulting from development efficiencies from Landmark and through our team in Manila were offset by increases in sales, marketing, and G&A. As we have discussed, our operating plan this year includes investing in customer facing resources as we benefit from lower R&D expenses.

Let me take a moment to report on our progress on our two key operational initiatives; our European operation center and our operations in Manila. We previously reported on our Q1 conference call that we opened our European center in Lausanne, Switzerland, on July 1, 2007, and we're actively building the team. We now have a team of more than 20 people on staff in Lausanne. The staff continues to have a positive impact on the business.

Our Manila team grew to 570 employees at the end of November, a 29% increase in head count from Q1. Currently, we are at 14% of our worldwide FTEs in Manila, compared to our objective of 20%. We continue to grow the team and are on track for our goal of 800 to 900 employees on board in Manila by the end of May of '08.

The productivity of our off-shore resources is also beginning to improve. For example, on the consulting side, a total of 32,000 billable service hours were delivered by Lawson employees in Manila in Q2 compared with 23,000 hours in Q1, and virtually zero a year ago. While we have made good progress in both of these transformational initiatives, our productivity plans get increasingly more aggressive in the second half of the year. Our forecasts are dependent on achieving higher productivity in Q3 and Q4 allowing us to reduce duplicative and contractor on-shore staff that we have in EMEA, Asia Pac, and U.S.

Our Q2 effective tax rate on a non-GAAP basis was 39.3%, down substantially from 67% a year ago. We continue to expect that the effective rate will remain below 40% on average for the year, which is a significant improvement over last year's annual average rate of 47%. Non-GAAP net income for the quarter was \$15.6 million, a threefold increase over the \$5.4 million net income in Q2 '07. Second quarter GAAP net income was \$3.7 million or \$0.02 per diluted share.

Now, let me discuss the impairment charge noted in our press release.

Lawson has a long history of investing excess cash under a conservative corporate policy that only allows investment in highly rated investment grade securities with preservation of capital and liquidity as primary objectives. Our investments include \$63.7 million par value of auction rate securities. These auction rate securities are currently rated AA or AAA and are current on all obligations. However, the liquidity and fair value of the securities has been impacted primarily by the uncertainty in the credit markets and leaves securities exposure to the financial condition of the bond insurance companies such as MBIA, AMBAC, and FGIC, which I'm sure you've all read about in the press.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

The fair value of the auction rate securities we hold was estimated to be \$58.7 million as of November 30, 2007, based in part on market information provided by the broker/dealer managing our investments. As a result, the Company believed it was prudent to report a permanent impairment charge of \$4.2 million, as well as a temporary impairment charge of \$767,000 to reduce the value of our auction rate securities for their estimated fair value. The \$4.2 million permanent impairment charge is recorded as a non-operating charge that reduces GAAP income by the same amount, because there is no tax effect due to the nature of the loss. This impacted GAAP EPS by \$0.02 per share in the quarter, although there is no impact in non-GAAP measurement for the charge. The remaining \$767,000 is a temporary impairment that flows through the shareholder's equity section of the balance sheet, not the income statement.

We are not in the business of taking risk in the management of our cash resources. We are a software company. We are disappointed that an impairment charge is required. However, our existing cash resources exclusive of the affected securities are more than sufficient to meet anticipated working capital needs and fund our business plan. We will continue to monitor the situation and update you in the future based upon market conditions.

Fully diluted shares outstanding were 181.9 million down 4% year-over-year. During the quarter, we purchased 331,000 shares at an average price of \$9.29. That brings the total to 12.5 million shares repurchased since the inception of the program in November of '06 at an average price of \$8.93. This represents a buyback of 6.7% of our outstanding shares. Through November 30, we utilized \$111.6 million of our \$200 million authorization. Subsequent to the November quarter, we have utilized an additional \$7.8 million to repurchase 823,000 shares at an average price of \$9.52 per share. We had a \$49.9 million net use of cash from operations in the November quarter. Total cash used in the quarter was \$59 million, which included \$7.9 million used for capital and \$3 million used for share repurchases. We ended Q2 with \$432 million of cash, equivalents, marketable securities, and investments including \$7.5 million of restricted cash for the remaining minority shares of Intenia. I'll remind you that net use of cash from operations in the quarter is fully consistent with our cash-flow pattern resulting from the timing of our January 1, and June 1, maintenance contract renewal dates. We anticipate cash inflows in our February and May fiscal quarters based on these renewal dates than a net use of cash in our August and November quarters. November quarter cash inflows are the lowest of the four fiscal quarters. We likewise anticipate turning to a net positive cash flow from operations in Q3 based on international maintenance contract renewals due on January 1. Similar to last year, Q4 will again be our strongest quarter for cash flow.

Now I'll cover financial guidance. Analyst's average estimates for Q3 are \$212 million of revenue and \$0.09 per share. I'd like to provide some color before providing guidance.

1. First currency. It is difficult to imagine a sudden change in currency trends in Q3. Based on Q1 and Q2 history, currency fluctuations would benefit analyst estimates for revenue but negatively impact their EPS by about \$0.01 a share.
2. Second, we identified \$4 million higher than planned duplicative and contractor costs and services in Q2, which is an impact of 1% to 2% on our operating margin. We expect this will continue to some degree while we are in this Manila ramp-up phase.

With this perspective for Q3, we anticipate that total revenues will be between \$216 million and \$220 million, and GAAP EPS is expected to be \$0.03 to \$0.04 per fully diluted share, exclusive of further impairments and auction rate securities. On a non-GAAP basis, excluding the impacts which most of you model, EPS is expected to be \$0.07 to \$0.08 per share. Our estimate of Q3 non-GAAP EPS excludes \$9.5 million in pre-tax expenses related to the amortization of acquisition related intangibles, amortization of purchased maintenance contracts, and stock based compensation charges. We anticipate an effective non-GAAP tax rate to likely remain in the range of 37% to 40%. We also feel comfortable with current analyst estimates for licensed revenues, which as a reminder show growth of more than 20% year-over-year.

One additional comment on full-year FY '08. We gave prior guidance for FY '08 of between \$820 million and \$830 million in total revenue and EPS between \$0.30 and \$0.34 per share. As indicated in my initial guidance remarks, the weakening dollar has impacted us in the first half. Assuming this currency trend continues, we would increase our full-year revenue guidance to

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

between \$845 million and \$850 million. The approximate composition of this revenue is in the ranges of 15% license, 40% maintenance, and 45% services. We currently anticipate FY '08 EPS to be toward the high end of our \$0.30 to \$0.34 range.

In summary, we feel very comfortable with the progress of our business. As we have always said, a transition story is not about any given quarter, as transitions do not occur in a linear fashion and are managed through the progression over time. By any measure, on a year-over-year basis, we are doing well, feel good about where we are today, and feel sanguine about our potential. Now I'll turn the call back over to Harry.

---

**Harry Debes** - Lawson Software, Inc. - President, CEO

Thanks, Rob.

Earlier I mentioned that in Q2 we signed a 4,000 user M3 deal at Oldcastle. I'm pleased to now also advise you that early in our third quarter, in December, we signed an even larger 7,000 user, M3 deal. In fact, this is the largest deal for Lawson or Intenia in five years. However, unlike the Oldcastle deal which we were able to recognize in the quarter in which it was signed, in this second case, the license revenue on this contract will be deferred for 9 to 12 months as we complete some services work related to this project.

Now, I don't want to get into detailed discussions of software license revenue recognition rules, but let's just say it's complicated in that every deal is different. But here's the message from these two recent wins--Lawson solutions are robust. We can scale, and we can compete in larger transactions as well as in our traditional mid-sized accounts. To this end, we've created a small, but dedicated team which focuses on larger transactions, and we expect to periodically sign relatively large deals in the future.

Furthermore, in both of these transactions, IBM Global Services has joined Lawson's team to work on these implementations, and this experience shows that systems integrators who traditionally only work with SAP or Oracle will join forces with Lawson as we prove that we can win sizable deals. We believe that having such SIs in our camp is an important ingredient to help us continue our growth, and we have an active program to develop and grow our partner ecosystem around the world.

We can't provide more details on this second deal until our Q3 earnings call, but we wanted to give you color on it today to help you understand it when you see the press release and that while we signed a very large deal, it will not impact our Q3 results, as we expect to recognize it 9 to 12 months from now.

So to summarize, Q2 was a solid quarter all around.

-Our software and services solutions are gaining traction in the market, as customers continue to seek alternative solutions and a superior partnering experience.

-We've added new service and maintenance offerings to help our customers achieve the greatest benefit from their Lawson implementation.

-Our sales team is maturing and becoming more productive,

-And, as we have more success, SIs and other partners are becoming eager to work with Lawson.

None of this would have been possible without the hard work and commitment of the people who make up the Lawson organization, and to them, I thank, as well our results show that the market values and continues to endorse Lawson as an alternative to the other ERP vendors in the market.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

So while there's still much to do, our story has now changed, from one of integration of the former Intenia to one of revenue and earnings growth. Now it's purely an execution story; and while this still represents its own set of challenges, we now have a much different risk profile than we had for the past 12 to 18 months.

Operator, that concludes our comments, now it's time for some questions.

---

## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS) We do have our first question from Mr. Thomas Ernst, sir, go ahead.

---

### Thomas Ernst - Deutsche Bank - Analyst

You mentioned on the call the use of a significant level of subcontracted partner resources. I think you said \$4 million. I'm curious what kind of levels have you seen in previous quarters? And you mentioned the goal here to hire and ramp that down. How long do you think you can get to when you don't need any subcontracted services?

---

### Harry Debes - Lawson Software, Inc. - President, CEO

Tom, I'd tell you, that this is a transition issue as we are ramping up our Manila facilities. There's a time when you have to hire people and then you train, and they aren't quite ready to be productive in customer sights. So we believe it's just a temporary solution.

---

### Thomas Ernst - Deutsche Bank - Analyst

Does that mean that you haven't extensively used subcontractor services in the past?

---

### Harry Debes - Lawson Software, Inc. - President, CEO

We have in the past used subcontractors, but I think in this particular quarter, it was more than we had budgeted to do.

---

### Thomas Ernst - Deutsche Bank - Analyst

Okay. Fantastic.

---

### Harry Debes - Lawson Software, Inc. - President, CEO

The whole message on this subject is that services margins -- if you track it for the last six quarters as we've been talking about it, is getting better with every quarter with the exception of Q1, which is the seasonally weak vacation quarter, but that services margin is improving and will continue to improve. Our goal is to be -- and this will take maybe even a couple of years, but our goal is that -- and we think it's entirely possible to be in the mid 20s at some point down the road. Today we're at 17%.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Rob Schriesheim** - Lawson Software, Inc. - EVP -CFO

To Harry's point, Tom, in the first and second quarter of last year, we were at 13% and 15% gross margin and services. First two quarters of this year we were at 15% and 17%. The fact is, when we outlined our plans for going through the transitional activities related to the off-shoring, we always explained that there was this both ramp-up of resources in Manila and concurrent ramp down of on shore resources. However, we always knew the ramp-up was going to front-run the ramp down, and we did have some suspicions or there was always a potential that we were going to require third-party contractors in order to meet the increased demands on our consulting services organizations. So I think we're just being transparent about it. We never really thought that we would be able to perfectly match the ramp-up and ramp-down, and so we're just seeing a little bit of that effect and we might for the next two quarters or so.

**Thomas Ernst** - Deutsche Bank - Analyst

Okay. One quick follow-up there. Does this flow through the income statement, or not, the consulting?

**Rob Schriesheim** - Lawson Software, Inc. - EVP -CFO

Yes.

**Thomas Ernst** - Deutsche Bank - Analyst

Okay. Fantastic. And if you'll permit one more question stepping going the big picture, I think all of Wall Street is waiting to hear how you approach guiding looking forward given the fears that are in the market about potential weakening in the macro economy. What was your thought process toward closure rates and how you factor in multiples of your pipeline towards producing your forecast?

**Harry Debes** - Lawson Software, Inc. - President, CEO

Tom, I've been reading those comments, and I've been seeing the various analysts talk about a weakening purchasing environment. We have no indication of that at the present time, either in the last quarter or in the quarter that we're in right now. So we're puzzled what people are talking about. I think -- many times I see those comments related to chip manufacturers, et cetera, but when it comes to Lawson's enterprise software, we're not seeing a slowdown in purchasing.

**Thomas Ernst** - Deutsche Bank - Analyst

Okay. And looking forward, do you need the same kind of closure rates as you've had in the recent quarters to meet your guidance expectations for February and May?

**Harry Debes** - Lawson Software, Inc. - President, CEO

Yes, and I would tell you that in some areas, specifically M3 in the U.S., we believe that the closure rates will, in fact, improve over time as our salespeople -- we've got a substantially new organization. We have -- don't forget, not that long ago, we had five people there. Today we have 28 or 29, and we're hiring all the time. So as those people mature, as they get experience, as they get training, as their pipeline builds and there are opportunities work through the typical sales cycle, we think their close rate will, in fact, go up.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Thomas Ernst** - Deutsche Bank - Analyst

Okay. Thanks again.

**Harry Debes** - Lawson Software, Inc. - President, CEO

Okay.

**Operator**

Our next question comes from Adam Holt. Sir, your line is open.

**Adam Holt** - JPMorgan - Analyst

Good afternoon. If I could ask a follow-up on the consulting business. I believe, in previous conference calls you've talked about reaching a target this year of offshoring 15% of your billable hours. You're at 14% this quarter. Is it possible that you're actually tracking ahead of your annual plan, that we should be thinking about that actually getting revised upward?

**Rob Schriesheim** - Lawson Software, Inc. - EVP - CFO

Adam, we're actually -- we did about 30,000 or 32,000 hours in services delivered offshore, which was about 8 or 9% of our total hours delivered offshore. So we still are striving to meet our objective by the end of the year to get to 15% of our hours delivered offshore, and ultimately 20% of our hours delivered offshore. So we think we still have upside this year versus the 17% gross margin that we achieved in Q2.

**Adam Holt** - JPMorgan - Analyst

I apologize. I must have misheard you. And then I guess two other quick questions on your personnel. You mentioned in your prepared comments that you still have about 40% of your organization in the U.S. has been there for less than 12 months. As you think about the forward-looking guidance, when would you expect to see that capacity get to full productivity? And could you remind us where you ended the quarter in terms of direct sales?

**Harry Debes** - Lawson Software, Inc. - President, CEO

Yes. Total direct sales was about 195 salespeople. So slightly below where we were at the beginning of the fiscal year. In the U.S., I think you're talking about the U.S. M3--?

**Adam Holt** - JPMorgan - Analyst

Yes.

**Harry Debes** - Lawson Software, Inc. - President, CEO

--salespeople that were relatively new. And I mentioned that we won a significant deal in Q2. We've already won a significant deal in Q3. It's great to win those deals, but those are two salespeople involved. I think the vast majority of them are now developing their opportunities and getting ready to close deals in Q3, 4, and in the future as well. So I still look forward to everyone else getting completely productive, and that's going to take -- that just takes a little while.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Adam Holt** - *JPMorgan - Analyst*

And should we assume that you're in a period where hiring should effectively decelerate on the direct sales side and we'll opt for more productivity out of existing capacity, or was this quarter an anomaly and we'll expect to see sales expansion continue?

**Harry Debes** - *Lawson Software, Inc. - President, CEO*

Well, so from the first of the year until now, sales head count actually went down by five people. So there's a 2% reduction. We expect -- that's not our plan, by the way. That's just a sometimes situations evolve where you either have resignations or some terminations for nonperformance, and we simply haven't increased our net determinations with increased head count in the short term, but I don't think you should think about that long-term. We will continue to hire people. We're below our sales head count targets right now, and no, we're not planning to add 20% salespeople in the next two quarters, but we do want to get, north of the 200 salespersons, because we do expect to continue to grow this business beyond this quarter or next quarter.

**Adam Holt** - *JPMorgan - Analyst*

And just one last question on the product side. You mentioned, you know, the large M3 deal you just signed. I was wondering if there were any other common denominators in terms of areas from a product perspective where there was particular strength in the quarter? Thanks very much.

**Harry Debes** - *Lawson Software, Inc. - President, CEO*

I'm not sure I followed his question. From a product perspective?

**Barbara Doyle** - *Lawson Software, Inc. - VP, IR*

When you talked about the strength in M3.

**Harry Debes** - *Lawson Software, Inc. - President, CEO*

Yes.

**Barbara Doyle** - *Lawson Software, Inc. - VP, IR*

Just looking for other products.

**Harry Debes** - *Lawson Software, Inc. - President, CEO*

Oh, well, we had a terrific quarter in our health care vertical. We've always been strong in that. But I mentioned three new deals that were significant transactions. The people in Europe had a good quarter, people in Asia and Australia had a good quarter as well. So the business was strong pretty much across the board, and so I'm pretty pleased with that. S3 had a good quarter. M3 both had a good quarter. Rarely when you have as good a quarter as we did does it mean that one organization blew things out. Everybody has to fire on all cylinders. That's what happens.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Barbara Doyle** - Lawson Software, Inc. - VP, IR

Adam hopefully you're still listening. I heard you hang up on the call, but I'll clarify the Manila resource comments that we made in the prepared remarks. Total head count -- we're currently at 14% of our worldwide FTEs offshore, but that's not all consulting. That's consulting, development, support, some G&A as well. So the 14% was the percent of our total worldwide FTEs that are in Manila and in terms of consulting, we delivered about 8% of the total billable hours from consulting.

**Adam Holt** - JPMorgan - Analyst

Terrific. Thank you very much.

**Barbara Doyle** - Lawson Software, Inc. - VP, IR

Okay.

**Operator**

Our next question comes from Alan Cooke. Go ahead, sir.

**Alan Cooke** - UBS - Analyst

Great. Thank you very much. Harry, with respect to the U.S. operation, are you satisfied that the weakness that we saw in Q1 has resolved and that the management changes that took place at the end of Q1, beginning of Q2 are helping that organization perform well?

**Harry Debes** - Lawson Software, Inc. - President, CEO

Yes.

**Alan Cooke** - UBS - Analyst

Okay. And so the transition in terms of the new management has gone smoothly? Did you see any disruptions, or do you expect Q3 to actually be stronger relative to Q2?

**Harry Debes** - Lawson Software, Inc. - President, CEO

The transitions have gone smoothly. It's almost like we don't even remember the names of the people who left, and I think the new EVP of sales, Eduardo Sanchez, has ramped up very quickly, he's a very bright, high-energy guy. I'm very pleased with the work he's doing, and we expect that we will continue to grow this business. This is a growth story. So top and bottom line will grow.

**Alan Cooke** - UBS - Analyst

Okay.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Rob Schriesheim** - Lawson Software, Inc. - EVP -CFO

The revenue results in the second quarter speak for themselves.

**Harry Debes** - Lawson Software, Inc. - President, CEO

Yes. The revenue speaks for itself.

**Alan Cooke** - UBS - Analyst

Sure.

**Harry Debes** - Lawson Software, Inc. - President, CEO

It wasn't a year-over-year growth story. It was a significant quarter over quarter story as well.

**Alan Cooke** - UBS - Analyst

Right. Then with respect to strength in spending, just following on from Tom Ernst's question earlier, your pipeline for Q3 and Q4, how does it look relative to a year ago or even comparing Q2's pipeline at the beginning of Q2 to the Q2 pipeline the previous year?

**Harry Debes** - Lawson Software, Inc. - President, CEO

Our plans are relatively the same. We do have -- obviously the deals fall out as we either sign them, or sometimes we lose them, or we qualify out, but then we top up with our marketing initiatives, we top up in the deals. One thing I'll tell you that we're really focused on is scrubbing the pipeline to make sure that they are valid deals. I mean, one of the greatest wasters of time and resource is when you have deals that are not in our market portfolio or within our scope, and we consume and burn a lot of wasted energy, and so one of the things we're really focusing on is making sure that the deals are well qualified early in this stage, and I'd rather us eliminate ourselves, because we don't think that they're suitable for us, we don't have a good match for the client and find that out 6 months, 9 months later. But in terms of your question it's about the same.

**Alan Cooke** - UBS - Analyst

Okay. And have you seen any changes in terms of the approval process or the length of sales cycles either in Q2 or the first part of Q3?

**Harry Debes** - Lawson Software, Inc. - President, CEO

No. I spent a lot of time reviewing the details of the wins, losses, and competitive intelligence that our team puts together at the end of every quarter, and while it will vary in one quarter from the next by either region or by vertical or by individual product line, I will tell you that I see no change in the close cycles or customer acceptance levels or spending patterns.

**Alan Cooke** - UBS - Analyst

Okay. Thanks. One more question, just for Rob. With respect to the impairment charge, do you have any concerns about needing to take another similar charge for the third quarter?

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Rob Schriesheim** - Lawson Software, Inc. - EVP - CFO

Alan, we're obviously not the experts on this. We are -- at this quarter, we looked at the portfolio of investments; and based upon input from our financial advisor and the market conditions, we did what we felt was the appropriate thing to do. We feel that as the 10-K season unfolds, the issue will probably become more widely spread and well known to the marketplace, and we'll just have to keep everybody updated and take action as the market conditions warrant, but beyond that, I really can't say anything.

**Alan Cooke** - UBS - Analyst

Okay. Thank you.

**Operator**

Our next question comes from Peter Goldmacher. Your line is open, sir.

**Peter Goldmacher** - Cowen and Company - Analyst

Hi, guys. Two quick questions. Hey, Rob, as I read the guidance in your press release and you talked about a 20% growth. That's about, I think, \$32 million, \$33 million, and your Q3 year-ago guidance was bookings for about \$32 million to \$38 million. It seems like on a bookings -- if we equate this year's revenue with bookings of last year, it seems like it's relatively flat. Is that just a conservative approach, or have there been changes -- can you address that? And then, secondly, you guys made a lot of noise about your human resources product and winning the HR Tech shoot-out in Chicago late last year. We'd love an update on that product, and I believe you were offering that on demand as well. So seeing what the uptake is on that. Thanks.

**Rob Schriesheim** - Lawson Software, Inc. - EVP - CFO

Sure. As far as -- we're obviously not giving bookings guidance this year versus last year. Our revenues -- our licensed revenue, Q2 '08 over Q2 '07 was up 50%, and we anticipate, as we said, that our license revenue, Q3 '08 versus Q3 '07 would be up about 20%, and we'd anticipate that our bookings would be up by a very healthy margin as well.

**Harry Debes** - Lawson Software, Inc. - President, CEO

Hey, Peter, I just mentioned we signed the largest deal in five years. It won't be recognized, but I don't think you need to worry about our bookings in Q3.

**Rob Schriesheim** - Lawson Software, Inc. - EVP - CFO

Yes. As a matter of fact, our deferred revenue on our balance sheet was actually modestly up Q2--.

**Peter Goldmacher** - Cowen and Company - Analyst

Yes, I saw that.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Rob Schriesheim** - *Lawson Software, Inc. - EVP-CFO*

Q2 '08 versus Q1 '08, so I don't think there's any conservatism. We feel pretty good about our bookings, and that's why we raised our full-year -- one of the reasons why we raised our full-year revenue outlook and guided people toward the upper end -- upper end of the range.

**Peter Goldmacher** - *Cowen and Company - Analyst*

Right. So Harry, is that a \$35 million deal we're talking about?

**Harry Debes** - *Lawson Software, Inc. - President, CEO*

I can't discuss the deals. Let me take the second question you asked, our strategic human capital management solution, which we did make a little bit of noise about before, but you notice we didn't talk about it at all during our prepared remarks, and that's because the product isn't generally available. We're very pleased with the progress that the product is making, it's now installed in four beta sites. We expect that near the end of Q3, we will have a formal release or maybe even early Q4 we'll have a formal release of the solution, and we're very excited about its potential in the market, and yes, it is a fast solution. So I'll just have to ask you to be patient for another couple of months, and we'll tell you all about it.

**Peter Goldmacher** - *Cowen and Company - Analyst*

Okay. Thanks, guys.

**Operator**

Our next question comes from Ajay Kasargod. Go ahead, sir.

**Ajay Kasargod** - *Piper Jaffray - Analyst*

Thank you, and congratulations on your quarter.

**Barbara Doyle** - *Lawson Software, Inc. - VP, IR*

Hay Ajay, we can hardly hear you.

**Ajay Kasargod** - *Piper Jaffray - Analyst*

How about now?

**Barbara Doyle** - *Lawson Software, Inc. - VP, IR*

A little better.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Ajay Kasargod** - Piper Jaffray - Analyst

Well, bad hotel phone, but just on the guidance, just to be clear, Rob, does -- you outlined a couple onetime items, I think, additional contractor costs that might impact Q3, but when you look at the revenue guidance and the earnings guidance, should we be assuming that margins will be flat as we head into Q3?

**Rob Schriesheim** - Lawson Software, Inc. - EVP - CFO

You're talking about operating margins?

**Ajay Kasargod** - Piper Jaffray - Analyst

The pro forma operating margin; that's correct.

**Rob Schriesheim** - Lawson Software, Inc. - EVP - CFO

I'd say that's approximately right. I'd say operating income margins will be roughly consistent with where we are on Q2.

**Ajay Kasargod** - Piper Jaffray - Analyst

Okay. And is that just a conservative outlook, Rob, or is that just because of those one time items you had mentioned?

**Rob Schriesheim** - Lawson Software, Inc. - EVP - CFO

Let me just try -- I feel like I do this every call. Everyone says, is that just a conservative outlook? Our philosophy on guidance is, we give you numbers we are comfortable we can deliver on with a high degree of confidence. I mean, there's a non-zero probability that we'll experience some upside. There's also a non-zero probability that we'll experience some downside. But we're giving you the best insight that we have, and we're focused on running the business, and the numbers at the end of the day will lie where they lie at the end of the quarter and the year, and at some point, we're going to be eliminating quarterly guidance altogether, as it's just not very helpful in evaluating or managing the business over a longer period of time.

So you're right. In the second quarter, we had some one time benefits which we discussed in both maintenance and license. There are some higher than expected costs as we ramp up our offshore operations and ramp down our on shore operations and that may very well continue over one to two quarters, and as we discussed, we've been negatively impacted in net income by currency fluctuations as the dollar weakens and as Harry mentioned we signed a very significant deal in Q2 which we were able to recognize in the quarter, and we also will probably -- we've got some other contracts we've signed we won't be able to recognize. So I don't think it's a matter of conservative guidance or aggressive guidance. We're providing you with insight and color; and again, by any measure, we outperformed our expectations and were clearly guiding for the remainder of the year, that we will introduce that.

**Ajay Kasargod** - Piper Jaffray - Analyst

Okay. Great. And just on the -- Harry, if I could turn the question over to you on the SI, you talked about more SIs moving toward Lawson. Could you -- are there any significant names or large ones you can talk about? Can you talk about what they're doing in terms of building their practice? Are they adding more people? Can you just talk about how you're helping to form those relationships and who they're with?

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Harry Debes** - Lawson Software, Inc. - President, CEO

Absolutely. We have training programs. We have recruiting programs, and yes, they are hiring and putting their people through Lawson training, and we also know that they are out in the market, with head hunters seeking to hire Lawson trained or experienced consultants to their organization. So, IBM certainly is one of them, where we have a global relationship in this regard, Deloitte is another one, and then there are a number of regional firms. There are going to be some that we're going to have a tough time with in terms of a relationship like Accenture, because we know that if we were to recruit Accenture, anything we tell them would immediately -- they would hand over to SAP. So it's unlikely that we're going to be terribly friendly with them. But a lot of other ones were very interested in working and have good working relationships with.

**Ajay Kasargod** - Piper Jaffray - Analyst

Okay.

**Harry Debes** - Lawson Software, Inc. - President, CEO

So we expect that in the U.S. alone we'll double or triple the number of SI consultants over the next 12 months.

**Ajay Kasargod** - Piper Jaffray - Analyst

Okay. Great. I'll just leave on this question. Harry, can you give us your thoughts on the M&A outlook for Lawson in 2008? And I'll hang up and listen. Thank you.

**Harry Debes** - Lawson Software, Inc. - President, CEO

All right. Well, M&A is one of those situations that it's impossible to predict. We have said that we wanted to grow the business, but we're not going to do it in a foolish haphazard way. We're very thoughtful, and we're conservative, how we approach opportunities. There are opportunities out there. We have looked at quite a few, I will tell you, and as you've noticed we haven't done any, because frankly, they didn't meet either our strategic or our financial thresholds, and while we continue to evaluate situations, it's pretty much impossible to predict if or when or what we might, in fact, be involved in. We have done some small transactions, and when the right deal, small or medium, comes along and we think it adds value to our business and it creates value for our shareholders, we'll certainly take it very seriously, and to this point, we haven't found that magic formula or combination. So we haven't done anything.

**Ajay Kasargod** - Piper Jaffray - Analyst

Thank you.

**Harry Debes** - Lawson Software, Inc. - President, CEO

Okay.

**Operator**

Our next question comes from Mark Schappel. Your line is open, sir.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Mark Schappel** - Hapoolim Securities - Analyst

Hi. Good evening. Harry in, your prepared remarks, you stated that the Company was more disciplined in its maintenance pricing and contract renewals. I was just wondering if you could elaborate a little bit on that in terms of what you're doing differently?

**Harry Debes** - Lawson Software, Inc. - President, CEO

Well, we have some standard terms that we now don't really vary from in terms of maintenance amounts, first of all, as a percentage of licensed revenue that we also have some renewable -- renewing terms and conditions that we don't really vary from, where we set certain preset and pre-agreed upon long-term maintenance increases, and so -- and we don't trade license for maintenance, et cetera. We don't discount existing maintenance for a short-term license and then flip it over again. So these were practices that perhaps existed in the industry, and to some degree, in former Intentia, former Lawson for a number of years. They're counter productive to the business, and we just -- we're tougher in establishing what the rules were. And also about our renewable dates, as you know, now we have two major renewal dates. One is the end of May, 31st of May, for the Americas business and the other one is the 1st of January for the international business. And we're pretty rigorous about the approach we take in terms of invoicing, increases, and collections, and that's just helped us get a better handle on our maintenance revenue, and I think you see it in the numbers, the numbers our growing at a healthy rate. So does that answer your question?

**Mark Schappel** - Hapoolim Securities - Analyst

Yes, that's good. Thank you. And one final question. Rob, if you could just review the onetime benefits that were recognized on the license and maintenance revenue lines in the quarter again? I didn't catch those numbers.

**Rob Schriesheim** - Lawson Software, Inc. - EVP - CFO

Yes. We realized about \$1.5 million in more or less onetime benefits in both license and the maintenance.

**Harry Debes** - Lawson Software, Inc. - President, CEO

We go to great lengths to point out our one time benefits. We almost never mention our one time disappointments, which every company has both good and bad. But just to make sure you guys are fully informed, we go to great lengths to tell you about, oh, this was an accident, and blah, blah, blah.

**Rob Schriesheim** - Lawson Software, Inc. - EVP - CFO

We accidentally did well.

**Harry Debes** - Lawson Software, Inc. - President, CEO

Yes, we accidentally did well, and it seems like we've been doing accidentally well for a couple of quarters.

**Barbara Doyle** - Lawson Software, Inc. - VP, IR

Anything else, Mark?

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Harry Debes** - Lawson Software, Inc. - President, CEO

Mark's gone.

**Rob Schriesheim** - Lawson Software, Inc. - EVP -CFO

Operator, next question.

**Operator**

Yes, sir. Our next question comes from Alan Weinfeld.

**Alan Weinfeld** - Henley & Company - Analyst

Congratulations, guys. Could you talk about, some of the verticals besides health care that worked really well, and some that were maybe a little slow in -- know, see the global economy out there?

**Harry Debes** - Lawson Software, Inc. - President, CEO

Sure. Alan, I mentioned -- I mentioned wins in health care. I mentioned wins in fashion. I mentioned wins in public sector, in the distribution. Those were all sectors that we had pretty good results. And frankly, those are our primary targets, so you'd expect us to do reasonably well in our primary target sectors. And then we have sort of a secondary set of targets; but frankly, we probably don't spend as much time, energy, or resources on those, and so we don't really have as much visibility on those.

In terms of our global opportunities, these are the situations, these are the verticals that you can expect that we will continue to invest in for the balance of this year and next year, and we expect to harvest opportunities from them. So I'm not sure I can answer your question, what's the buying situations and verticals that are secondary or third-level verticals for us. We already focus on them. If we weren't doing well in health care and public services and retail -- sorry, and fashion and food and distribution, then we'd have something to worry about. But these are the ones we've put our chips on, so to speak and those are the ones we're investigating in.

**Alan Weinfeld** - Henley & Company - Analyst

All right. So correct me if I'm wrong. You have beaten the consensus the last few quarters. Your costs are coming down because of your actions in moving people to Manila, which is four or five people work in Manila as compared to the cost of one person in America, and your costs are coming down in Europe because of the center in Switzerland. At the same time, your salespeople are getting more mature, so you're doing bigger deals, and able to do more deals globally on the licensed front. So you raised your expectations for licenses today, and are just, I guess, kind of staying at the high end for the year on the earnings front. But tempering the earnings for next quarter, but your stock is down right now. Do you have any explanation for that?

**Harry Debes** - Lawson Software, Inc. - President, CEO

On our stock price? We can't figure that out. We don't know what the heck is going to happen with the stock price.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Rob Schriesheim** - Lawson Software, Inc. - EVP -CFO

Yes. We'll leave that up to you, but we would agree with everything you said. We obviously feel good about the business. The trends are moving in the right direction. Our costs will come down as a result of our taking these actions. They might not be coming down this quarter, but they will come down as a result of our taking these actions, and we did guide -- we did upgrade our revenue guidance for the full year pretty significantly, and we did guide towards the upper end of our EPS just to take into account some of the negative impacts of the currency and some of the higher costs as a result of the transitioning. But we do feel good about the business, and we think the business -- the potential in the business is doing very good. So I'm not in the business of predicting what the stock price is.

**Alan Weinfeld** - Henley & Company - Analyst

And you're in there in December buying almost 1 million shares?

**Rob Schriesheim** - Lawson Software, Inc. - EVP -CFO

Yes, we did.

**Harry Debes** - Lawson Software, Inc. - President, CEO

So here's the thing--.

**Rob Schriesheim** - Lawson Software, Inc. - EVP -CFO

An average price or whatever, \$9.50 recently.

**Harry Debes** - Lawson Software, Inc. - President, CEO

We think if we continue to do -- if we continue to execute as we're executing over the long term, the share price will take care of itself. We can't explain day to day variances, what's happening, blah, blah, blah. It's just not something we can control. It's market conditions, it's the economic situation, the credit market, et cetera. We don't know all of the factors. We just know that if we continue to do what we said we would do, it will keep people on track, focus on both our top and bottom-line growth. We think the investments we are making are sound and they will pay off as they have in the past. Then that's -- that's as much as we as a management team can do.

**Barbara Doyle** - Lawson Software, Inc. - VP, IR

I would just remind you that we've had \$0.02 of negative impact on our EPS year-to-date. So there is some impact of currency on that -- there's some pressure on our full-year EPS outlook from currency.

**Alan Weinfeld** - Henley & Company - Analyst

Well, we look forward to seeing you at the National Retail Federation, we'll see your newest and best retail products. So good luck. Thank you.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Harry Debes** - Lawson Software, Inc. - President, CEO

Thank you.

**Barbara Doyle** - Lawson Software, Inc. - VP, IR

Thank you.

**Rob Schriesheim** - Lawson Software, Inc. - EVP -CFO

Thanks.

**Operator**

Our next question comes from Brad Smith.

**Brad Smith** - Dougherty & Company - Analyst

Good afternoon, guys. I was wondering if we could just touch on Europe for a second, if you could give us an overview on kind of what you're seeing in that environment as it compares to a year ago? I know you had the road show out there in September. Just curious what you're seeing if you could touch on both M3 and S3 products out there?

**Harry Debes** - Lawson Software, Inc. - President, CEO

Well, so as you know, Europe is predominantly an M3 market for us for historical reasons. We've had some success with S3, as I mentioned, we now signed our third health care deal, and when we think of Europe, by the way, we think of EMEA. So it's Europe, Middle East, and Africa as a region, it's not just Europe. But at this point, M3 isn't a significant portion of the business there. We do believe that health care has great potential. We've recently hired some senior people to help us launch a more aggressive health care initiative, and we'll report back to you in a couple quarters on the progress on that.

On the M3 side, the European business has actually been pretty strong in both Q1 and Q2. We've signed some relatively large new deals as well as some significant upgrades. Our remains with an upgrade -- well, it was an existing client in one division and then they decided to standardize. But the other deal I mentioned, Boissons Glacieres, is in fact, a brand-new large deal, excuse me, and in Q1 they also signed a significant number of new deals. So we're very pleased with the progress we're making in Europe. In fact, Europe is slight -- year-to-date, at the end of the second quarter, slightly ahead of its targets where we thought that they might be. So I'm heading off for a sales conference actually tomorrow, to speak with the entire European sales organization, but we've got them in training and productivity tools, et cetera, education. So yes, we're feeling good about what's happening in Europe.

**Brad Smith** - Dougherty & Company - Analyst

Okay. Okay.

**Harry Debes** - Lawson Software, Inc. - President, CEO

I should also tell you we've also expanded our partner network in Europe into some of the Eastern European countries, Hungary, Czechoslovakia, Russia, Turkey, et cetera. So there seems to be an appetite there for Lawson Solutions.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Brad Smith** - *Dougherty & Company - Analyst*

Okay. I guess -- I don't want to characterize it as a constraint, but I guess a constraint around getting S3, is it out in those regions, is it a regionalization of the product or is it more of a distribution kind of bottleneck that you're working through?

**Harry Debes** - *Lawson Software, Inc. - President, CEO*

It's a regionalization of the product.

**Brad Smith** - *Dougherty & Company - Analyst*

Okay.

**Harry Debes** - *Lawson Software, Inc. - President, CEO*

But this was very much part of our plans. We never anticipated or expected that S3 would grow significantly in Europe. Our story was also always watch M3 in the U.S.

**Brad Smith** - *Dougherty & Company - Analyst*

Okay.

**Harry Debes** - *Lawson Software, Inc. - President, CEO*

That's always been our number-one growth initiative and it still is today.

**Brad Smith** - *Dougherty & Company - Analyst*

Okay. Okay. And then just one more with you just kind of exiting that recent maintenance renewal period. Were you happy with the performance, or I guess how did some of the new premium offerings that you've been talking about perform when you went through that cycle?

**Harry Debes** - *Lawson Software, Inc. - President, CEO*

Very well. We're very pleased, both the silver, gold, and platinum offerings, which are enhanced versions of our standard basic maintenance solutions, have been well received. It always takes a couple of months for people to really understand and absorb what it is that we're proposing, and then for them to go through an internal review and then a purchasing exercise, but right now, I will tell you we're in full swing. We have signed quite a few customers, existing and also quite a few new customers who are immediately signing up for the enhanced offerings offerings which offers a premium. But obviously we think we deliver great value for those -- for those new offers. So we're very pleased with the progress. We just wish we had done it five years ago.

**Brad Smith** - *Dougherty & Company - Analyst*

Okay. All right. Thanks a lot, guys.

Jan. 07. 2008 / 4:30PM, LWSN - Q2 2008 Lawson Software, Inc. Earnings Conference Call

**Barbara Doyle** - Lawson Software, Inc. - VP, IR

All right. Operator, I think that's it for our call. So Harry, do you want to make some last comments?

**Harry Debes** - Lawson Software, Inc. - President, CEO

Yes. So just in closing, I think we were very pleased with the progress in Q2, both as it relates to quarter over quarter performance improvement, but -- and also year-over-year. We feel reasonably positive about the business that's reflected in the numbers and the improved guidance that Rob has given you, and we look forward to speaking with you again in a couple of months time when we discuss our third quarter. Thank you very much.

#### DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.